



# RATED PG: parental guidance suggested

A Parent's Guide for Student Academic Achievement and Financial Assistance

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## How to save for college costs

Congress recently enacted the Taxpayer Relief Act of 1997. Many of the Act's provisions are designed to assist families with paying and saving for college.

Major provisions include tax credits for college costs, tax-sheltered education savings accounts, deduction of student loan interest and other incentives to aid in paying the increasing costs of higher education.

### **HOPE TAX CREDIT AND LIFETIME LEARNING CREDIT**

These two provisions allow eligible taxpayers to receive a nonrefundable tax credit for qualifying educational expenses. Credits are available for attendance at community colleges,

universities, colleges, certain for-profit schools and vocational schools. Although the Hope Tax Credit is available for the first two years of educational expenses, the Lifetime Learning Tax Credit may be used for all years of postsecondary education.

#### **Taxpayer Eligibility:**

Credits can be claimed for qualified expenses incurred by the taxpayer, the taxpayer's spouse or qualified dependents of the taxpayer. Anyone who is eligible to be claimed as a dependent cannot claim the tax credit; the individual who claims the exemption would receive the tax credit in these cases.

- **Hope Credit** – The student must be enrolled at least

half-time in a degree program or other program that leads to a recognized certificate.

However, students enrolled part-time are only eligible to receive the credit for two years. Students may not be convicted of a federal or state drug offense.

#### • **Lifetime Learning Credit**

– Credits can be claimed for students pursuing degrees and for non-degree courses that allow a student to be better skilled in the job market. Credits are not available for courses involving games, hobbies or sports.

#### **Income Requirements:**

The credit is phased out for persons with incomes between \$40,000 – \$50,000 for individ-

ual returns and between \$80,000 – \$100,000 for joint returns.

#### **Effective Date:**

- **Hope Credit** – Educational expenses associated with the first two years of higher education paid after December 31, 1997 for academic periods beginning after that date.

- **Lifetime Learning Credit** – Educational expenses paid after June 30, 1998 for academic periods beginning on or after that date.

**Qualifying Expenses:** Only tuition and fees count as qualifying educational expenses. Costs

SEE **COLLEGE COSTS**, page 3

### *In this issue . . .*

We hope you're finding **RATED PG** a useful resource. We wish to thank the high school guidance counselors who, in some cases, have a formidable task in distributing our publication to the parents of all their freshman and sophomore students.

Inside this issue, you'll learn about financing your student's postsecondary education (including information on the newly enacted Taxpayer Relief Act of 1997), and tips on borrowing money to help pay for the college, technical or professional school of your student's choice.

*Enjoy!*

## CBHE approves MOSTARS

Dr. Kala Stroup, commissioner of higher education, and members of the Coordinating Board for Higher Education (CBHE) recently approved a reorganizational plan that included the designation of "MOSTARS" as the new area name for all of Missouri's student financial assistance programs administered by CBHE staff.

"Our goal is simple," Stroup said. "To show Missouri families that their dream of obtaining a quality education after high school is not out of reach."

MOSTARS will not only encompass the administration of the 10 federal and state student financial assistance programs currently administered by the CBHE staff, but will also provide expanded outreach services to educate and inform Missouri families. ♦



# Financial Aid OPTIONS

*What are your options  
for paying for college?  
Read on and find out.*

**D**o you dread thinking about financing your student's postsecondary education?

Even if your student is the brightest, fastest or most talented student in his or her high school, chances are your student will not have his or her education fully financed by someone else.

There are, however, numerous options available for students who need to finance their education.

While you and/or your student should assume at least some of the financial responsibility for his or her education, most college-bound students, with a little resourcefulness, may be eligible for some type of financial aid.

## What are our options?

Student financial aid comprises four major types – scholarships, grants, loans and work-study, from four major sources – federal, state, institutional and private.

**Scholarships** are typically awarded based on academic achievement or individual talent and do not have to be repaid. Certain scholarships may require the student to maintain a minimum grade point average or pursue a specific degree program to maintain eligibility. Others may require a term of service, internship or employment during or following the recipient's postsecondary education.

**Grants** are awarded based

on the student's demonstrated financial need, individual talent or association, and do not have to be repaid.

**Loans** are borrowed funds that are required to be repaid with interest (for the majority of student loan programs), similar to mortgage or auto loans. Many education loans feature low interest rates and deferred repayment until after graduation.

**Work-Study** is awarded based on the student's demonstrated financial need and "earned" in a way similar to any employment where the student

institutional and federal student aid opportunities.

Finally, look closer to home.

Many employers, high schools and organizations in your community, such as businesses, religious groups, professional, civic and service organizations, offer scholarships. Ask your high school counselor, the local chamber of commerce, and your employer about the availability of such scholarships.

**How is eligibility for student financial aid determined, and how do we apply for aid?**

*To apply for  
all federal  
and state  
need-based  
student  
financial aid  
programs,  
your student  
must  
complete  
the Free  
Application  
for Federal  
Student Aid  
(FAFSA).*

earns money to offset the cost of postsecondary education.

## How do we find out about student aid programs?

You can find out about student financial aid opportunities from a number of sources. Several state student aid programs are administered by Missouri Student Assistance Resource Services (MOSTARS).

You may contact the MOSTARS Information Service Center (800-473-6757) about state-administered grant, scholarship and loan programs.

In addition, a broad range of academic and competitive scholarships may be available through the student financial aid office at the college or university to which your student is applying. Contact the institution's financial aid office regarding

Most student aid awards are based on financial need. Your need is calculated based on a standard federal formula: educational costs, minus expected family contribution (EFC), equals financial need.

Educational costs are determined by each postsecondary institution. The costs include tuition, fees, room and board, and other school-related expenses. The EFC is the amount that a family should be able to contribute toward educational costs. The EFC amount is determined by the federal need analysis formula when a student completes the Free Application for Federal Student Aid (FAFSA). To apply for all federal and state need-based student financial aid pro-

**SEE OPTIONS, page 3**



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**RATED PG :parental guidance suggested** is published three times each year by Missouri Student Assistance Resource Services (MOSTARS) and the Missouri Higher Education Loan Authority (MOHELA) for parents of Missouri high school freshmen and sophomores. Editorial content for this publication is shared by the Commissioner of Higher Education and MOHELA.

High school counselors may photocopy issues of **RATED PG** after placing the following information on an original copy:

*Duplicated with permission from  
MOSTARS and MOHELA, 1997.*

For more information about this publication and about items and articles printed in this newsletter, please write or call:

**Missouri Student Assistance Resource Services**

**Information Service Center**

**3515 Amazonas Drive**

**Jefferson City, MO 65109**

**(800) 473-6757 or (573) 751-3940**

**OR**

**Missouri Higher Education Loan Authority**

**Corporate Plaza**

**14528 South Outer Forty Drive**

**Chesterfield, MO 63017**

**(314) 469-0600**



- ☐ Explore all scholarship, grant and work options, from all sources (federal, state, institutional and private), before seeking loans.

## Borrowing TIP\$

- ☐ Estimate all educational costs (tuition, room and board or gas/auto maintenance for commuters, books, supplies, lab fees, food and incidentals).
- ☐ Figure in what your and/or your student's contribution will be.
- ☐ Talk to several lenders to explore your borrowing options.
- ☐ Read all small print carefully before signing any loan documents.
- ☐ Don't borrow more than your student needs.
- ☐ Keep copies of all applications, agreements/terms and loan correspondence.
- ☐ Discuss and know the repayment terms; make sure you and/or your student can manage repayments.
- ☐ Don't default. Default rates influence loan availability, repayment policies, and affect credit histories. Work with your lender to avoid default.

## OPTIONS, from page 2

grams, your student must complete the FAFSA. Other types of state or institutional aid programs may require separate applications. You may obtain the FAFSA and information on the application process for all programs from the college or university financial aid office, or from your student's high school counselor.

### How do we know how much our student is eligible for?

After your student's FAFSA has been processed, you will receive a Student Aid Report (SAR). The SAR will contain the student's calculated EFC. The SAR should be submitted to the college's financial aid office. The aid officer will use your SAR to determine financial need. Based on the amount of your student's demonstrated financial need, the aid office will put together a financial aid package. Based on the policies of the individual institution, and the availability of program funding, the aid package may be a combination of scholarship, grant, work-study, or loan programs. ♦

## COLLEGE COSTS, from page 1

associated with room and board and books are not counted as educational expenses. Credits cannot be claimed for expenses covered by tax-free scholarships. However, expenses can be claimed if they have been paid with borrowed funds and are not reduced by gift or inheritance.

If a student has completed two years of postsecondary education prior to the start of the tax year, the expenses cannot be claimed as Hope Credits. Also, Hope Credits cannot be claimed if the expenses are claimed in two prior tax years.

Taxpayers cannot get benefits from multiple tax incentives in the same tax year. For example, expenses that are deducted as business expenses cannot be claimed as Hope Credits or Lifetime Learning Credits. However, expenses can be claimed in subsequent years. For example, a student can receive Hope Credits for two years and continue to receive Lifetime Learning Credits during future years.

### Credit Calculations:

- **Hope Credit** – 100 percent of the first \$1,000 and 50 percent of the next \$1,000 of eligible educational expenses qualify, with a maximum of \$1,500 per eligible student.

Amounts are adjusted after 2001.

- **Lifetime Learning Credit** – 20 percent of the first \$5,000 of educational expenses for eligible students, up to a maximum of \$1,000 per family. The amount is adjusted after 2002.

### EDUCATION IRAS

As tuition continues to rise, it becomes increasingly important for parents to begin saving for their children's education. The Education IRA allows parents to save for education and receive tax benefits as well.

### Taxpayer

**Eligibility:** This trust was designed exclusively for pay-

ing the educational costs of the taxpayer's beneficiaries. Contributions cannot be made after the beneficiary reaches age 18 and can only be made in cash. Contributions are limited to \$500 a year per beneficiary.

**Income Requirements:** The credit is phased out for persons with incomes between \$95,000 – \$110,000 for individual returns and between \$150,000 – \$160,000 for joint returns.

**Effective Date:** Tax years beginning after December 31, 1997.

*The information in this article is not to be construed as tax advice or counsel. You should also contact your accountant about these and other tax incentives that may apply to your individual circumstances.*

## For More Information

More information can be obtained on-line by accessing a number of World Wide Web sites:

- <http://www.mocbhe.gov>
- <http://www.mohela.com>
- [http://www.house.gov/ways\\_means](http://www.house.gov/ways_means)
- <http://speakernews.house.gov>
- <http://www.aicpa.org>
- <http://www.senate.gov/~finance/summ.htm>

**Qualifying Expenses:** Tuition, fees, books, supplies and certain room and board fees qualify as eligible educational expenses. However, a student must be enrolled at least half-time to have room and board expenses counted as eligible expenses.

**IRA Distribution:** Distributions from Education IRAs will be excluded from the beneficiary's income if the total distribution is less than or equal to the amount of educational expenses.

If, however, the distribution is more than expenses, the amount will be considered to be paid proportionally from principal and proportionally from interest. Therefore, only a portion of the earnings will be excludable.

SEE COLLEGE COSTS, page 4

## The Missouri Higher Education Loan Authority

The Missouri Higher Education Loan Authority (MOHELA) is a not-for-profit financial institution. Each year, MOHELA originates loans in conjunction with lending institutions. MOHELA also purchases loans from lending institutions and then services the loan(s) of those borrowers during the repayment period. MOHELA serves as the origination and servicing agent for most private lenders in Missouri, and is the only Missouri-based secondary market.

MOHELA maintains a partnership role with private lenders in developing programs that make loans available to Missourians for postsecondary education.

Impending changes in federal loan programs stand to increase the value and scope of MOHELA's vital role.

If you are a parent with a student who has already enrolled in or completed college, or if you have outstanding education loans, contact MOHELA about loan consolidation by calling its loan consolidation hotline at (800) 666-4352, ext. 3444, today. ♦

## COLLEGE COSTS, from page 3

A tax penalty of 10 percent will be assessed on distributions that exceed expenses, excluding distributions resulting from disability, death or scholarships received by the beneficiary.

Distributions from Education IRAs can be rolled over into another Education IRA for another beneficiary without penalty.

### STUDENT LOAN INTEREST DEDUCTION

Certain interest on student loans will now be tax deductible.

**Taxpayer Eligibility:** Interest may be deducted on qualifying loans paid by the taxpayer, the taxpayer's spouse or qualified dependents of the taxpayer.

Anyone that is eligible to be claimed as a dependent cannot claim the tax deduction.

**Income Requirements:** The deduction is phased out for persons with income between \$40,000-\$55,000 for individual returns and between \$60,000-\$75,000 for joint returns. Certain exclusions are made in calculating the income requirements.

**Effective Date:** Interest payments made after December 31, 1997. If the loan already exists, qualifying interest payments are allowable until the initial 60-month period of time has expired.

If the borrower is paying interest beyond the initial 60 months of repayment, the loan does not qualify for interest deductions.

**Qualifying Loans:** Generally, a loan that is used to pay qualifying expenses to attend postsecondary education on at least a half-time basis qualify for the interest rate deductions.

Qualified expenses include tuition, fees, room and board and other related expenses reduced by any earnings on U.S. savings bonds, excludable distributions from Education IRAs and certain scholarships and fellowships.

**Deduction Calculations:** Interest may be deducted equal to the interest paid during the year, up to a maximum of \$1,000 in 1998. The amount increases by \$500 each year until 2001, where the maximum will be \$2,500. Only interest paid during the first 60 months is eligible for the deduction and periods where the borrower is in an authorized deferment do not count toward the 60-month period.

### STATE TUITION PROGRAMS

State Tuition Programs, or prepaid tuition programs, are expanded to permit savings for room and board expenses. Currently, Missouri has a prepaid tuition program by statute (Section 166.200 RSMo – Access to Higher Education Trust – Advance Tuition Payment Contracts); however, this program has not been implemented.

### STUDENT LOAN CANCELLATION

Certain loans that are forgiven as a result of performance of certain work that is supervised by a tax-exempt organization or governmental entity receive a tax-free benefit. Only loans made by certain private universities, private foundations or other tax exempt organizations qualify for this benefit.

### IRA WITHDRAWALS

Beginning in 1998, IRA withdrawals may be made to pay postsecondary education expenses for the IRA owner, spouse, child or grandchild of the IRA owner or spouse without penalty. ♦